

Consultation Paper 103
Prudential Policy & Governance Division - Insurance
Central Bank of Ireland
PO Box 559
Dame Street
Dublin 2

11 Aug 2016

Re: CBI Consultation Paper 103: Consultation on Guidance for (Re)Insurance undertakings on the Head of Actuarial Function Role

Dear Sir/Madam,

We welcome the opportunity to participate in the consultation process regarding the "*Consultation on Guidance for (Re)Insurance undertakings on the Head of Actuarial Function Role*" as set out in the Central Bank of Ireland ("CBI") Consultation Paper ("CP103").

Overall, we concur with the broad intent of the paper. We have a number of observations which we consider may enhance the proposals made in CP103.

Independence of the HoAF

It is our view that some of the proposals could only be carried out by an individual who is clearly independent of the management of the company. For example, in section 3.3.3.1(g) the HoAF is expected to:

"consider the appropriateness of the business plan for the purposes of conducting an ORSA assessment and determining the undertaking's own solvency needs."

"consider whether any management actions assumed in the business plan are feasible and likely to have the desired effect"

These tasks would be difficult to perform by a HoAF operating within and reporting to first-line management. For example, should the HoAF be involved in the design or production of the business plan or in the assumed management actions then the HoAF would not be in a position to opine independently on them.

It is always a challenge for an employee to be truly independent. The independence of the HoAF could be strengthened by requiring the HoAF to have independent reporting lines within the organisation. As an example, the HoAF's primary responsibility could be to the Board with direct access to the Chairman of the Board.

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Nature and format of Opinions

The proposals require the HoAF to produce an opinion on the underwriting policy, an opinion on the reinsurance arrangements and an opinion on the ORSA process. However, the proposals do not define what is an opinion and provide little guidance on the nature and format of these opinions. The following amendments should be considered by the Central Bank in advance of finalising the requirements:

- The Central Bank should provide clear guidance on the level of assurance required from the HoAF in providing each opinion.
- Some of the proposals require operational knowledge and expertise. For example, in section 3.2.5 (m) the HoAF may be required to provide an opinion on the administrative work of a reinsurance provider. The Central Bank should either remove these areas from the final guidance or provide further guidance on how the HoAF is expected to provide an opinion on those areas.
- The Central Bank should provide further guidance on the format of each opinion. This should include whether the opinion is expected to be in written format and the addressee for each opinion.

Guidance for Group Subsidiaries

The duties of the Actuarial Function are set out in the Solvency II directive. Various approaches are currently being taken across Europe to the implementation of these duties. Different jurisdictions are guiding the actuarial profession in different ways.

Whilst it is appropriate and correct for the Central Bank to frame the requirements at a national level it is important for the requirements to be consistent with comparable European countries. In some peer European countries the Actuarial Function requirements are the Solvency II requirements with no further local requirements.

Those areas where the requirements are different from peer European countries could cause difficulty for Irish subsidiaries of European groups. This could be particularly challenging where the lead supervisor is another European supervisor and they have approved the Group's approach to the Actuarial Function opinions. The Central Bank should consider the implications on local and group Boards where the local requirements differ from the standard Solvency II requirements.

Interaction with the Risk Function

The following areas within the Consultation Paper require the HoAF to review the work performed by the risk area:

- The HoAF is expected to provide an opinion on each ORSA process.
- The HoAF is expected to review the risk management function's assessment of the appropriateness of the internal model or standard formula of the undertaking

The Central Bank of Ireland's Corporate Governance Requirements for Insurance companies 2015 ("the code") provides the risk management function with appropriate reporting lines (e.g. "direct access to the Chairman of the board") to ensure that they can carry out their duties in an independent fashion.

The consultation paper's requirement for the HoAF to provide an opinion on elements of work performed by the risk management function could potentially challenge the independence of both the HoAF and the risk management function. The Central Bank should consider providing clarity, in the final requirements, that the HoAF's opinion in this case is not an opinion on the risk management function.

Access to Information and Influence

There are a number of sections set out within the Consultation Paper requiring the HoAF to opine on planned management actions. The following are some examples:

Section 3.2.5 (j):

"Where the undertaking intends entering a material new line..."

Section 3.3.3.1(g):

"consider whether any management actions assumed in the business plan are feasible and likely to have the desired affect."

Section 3.1(j):

"consider the likely financial impact of any planned material change to business plans, reinsurance arrangements, terms and conditions of contracts, underwriting standards and/or distribution channels"

In order to effectively carry out these duties the HoAF should be in a position to provide their view on potential decisions as part of the decision making process. We recommend that the final proposals include the following:

- a requirement for undertakings to ensure that the HoAF has sufficient seniority and independence to effectively challenge those business decisions which are covered by the HoAF opinions. This approach would be similar to that set out for the CRO in section 12.3 of the code.
- guidance on how the Central Bank expect this required level seniority and independence to be achieved.

Guidance on External HoAFs

The requirements are expected to be applied by the HoAF on a full time basis (i.e. 24/7). This is different from the previous "Signing Actuary" regime where the Signing Actuary provided an opinion on the reserves on an annual basis. This 24/7 requirement presents a particular challenge in situations where the HoAF is not an employee of the company. The Central Bank should consider including, in the final requirements, guidance on the scope and nature of the opinion in these circumstances.

As indicated, we support the principles as set out in CP103, and consider that the above observations may serve to enhance the final guidance. Should you wish to discuss any of the above mentioned points, we would be delighted to meet with you.

Yours faithfully



Dermot O'Hara

Director of Actuarial Services